ECON 136A
Mon & Weds 9:30 - 11:40
BUCHN 1910

Instructor: Bob Anderson

Instructor Background
• UCSB Graduate of 1992
• Senior Manager, KPMG, LLP - 1993-2004
• RAFS, Inc.
• Interests

Why are we here?
Learn foundation in accounting - which is useful for?
• Getting a JOB!
• Doing your job
• CPA exam

What does 136A Cover?
• Refresher on basic accounting;
• Income statement & Retained earnings;
• Balance sheet
  – Cash & receivables
  – Inventory (and valuation issues)
  – Fixed assets, their depreciation and valuation issues
• Time value of money
Course Approach

• Mutually well prepared;
• Summer Session accelerated-BE PREPARED or get left behind
• Lectures to be an expansion of what is in the book
  – Real World
  – Interesting and Layman’s terms
  – Class involvement in discussion
  – Of Course: cover the curriculum

Administrative Matters

NOTE: All of the following is in syllabus

• Web-Page address is econ.ucsb.edu/~anderson
• No class on Weds. September 1. There will be a take-home ‘exam’ in it's place. It is due at the final
• Student preparation for classes
  – Class presentations on the web for review/ printing before class
  – Quizzes and Homework will combine for 10% of your course grade, there will be one per class, except exam days.
  – Date assigned depends on pace of class. This means you HAVE TO COME TO CLASS if you are going to be able to know what is due at the next class!
• Two drops allowed
• Grade Posting. You must provide me a release form and I will periodically post to the web
• My office: NH 3039. Hours Monday 8-9am and 2-5pm. Weds 8-9am and by appointment.

LAB

• MUST DO IT- that is why you get an extra unit
• DO IT SOON, IT HELPS YOU UNDERSTAND THE MATERIAL!

EXAMS

75% OF YOUR COURSE GRADE
• Combination of multiple choice, short answer and problem solving:
• Grade allocation (1,000 points):
  – Midterm will be worth 37.5%
  – Final (20% of exam cumulative) 37.5%
  – Quizzes & Homework 10%
  – Chapter 11 take-home 10%
  – Research Project 5%
  – Lab- Negative Points (Interactive Financial Accounting Lab Book with disks at bookstore)
WHAT IS ACCOUNTING?

• It is NOT posting entries to the general ledger—That is what we call “bookeeping”.
• It IS taking a lot of transactions (some requiring complex accounting) AND other information and using it to tell users what happened.
• Users:
  – Capital providers
    • Lenders
    • Investors
  – Insurers
  – Management
  – Unions
  – Government agencies

Basic Statements

• Balance sheet
  – Where do we stand
  – “As of”
• Income statement
  – What happened
  – ‘For the Period’
• Stockholder’s equity
  – Equity standing
  – ‘As of’ and with information about ‘the period’
• Statement of cash flow
  – Where did the money go?
  – Where did new money come from?

BASIS

• ACCRUAL
  – WHEN is the key question in accounting?
  – anyone can debit and credit cash as it happens, but that does not necessarily tell the accurate story.
• HISTORICAL COST basis
  – General Premise is that historical cost is preferred, which is generally conservative
  – Landscape is changing- FIN 45, various fair value disclosures.
• CONSOLIDATION
  – Heated debate, due in large part to ENRON, referred to as “OFF BALANCE SHEET”
  – What do you think the regulators are trying to accomplish? Why?
  – FASB has been working on it for guess how many years?
  – FIN 45
• Consistency

Role of the Public Accountant

Express an audit opinion

• Why is the “auditor’s” opinion important?
  – Lends credibility to the story told by the financial statements
  – Enables reliance by users
  – Helps facilitate the process of conducting business
**WHAT IS GAAP?**

- It is a means of attempting to ensure that two entities engaged in similar activities account for those activities in:
  - A way that accurately portrays the economic substance of the transaction
  - Consistently (between entities and in different periods).
- Governed by various entities: SEC, FASB, GASB. (Expansion in another class)
- Whose responsibility is it to present financial statements in accordance with GAAP?
- Whose responsibility is it to opine on the conformity of the financial statements in accordance with GAAP?
- Are the authoritative agencies directly involved?

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**JUDGMENT**

**JUDGMENT IS AND ALWAYS WILL BE INHERENT!!!**

- Landscape changing toward- rules based VS Principles based
  - Consequence:
    - Entity ability to manipulate
    - Complex and difficult to understand literature
  - Intent
    - Reduce JUDGMENT

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**LANDSCAPE**

ENRON, GLOBAL CROSSING, ETC... = PRESSURE ON:

- Financial reporters (management)- certifications
- Auditors- SOX 404, fraud responsibilities
- SEC, FASB. Rushing to release.

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**KEY NOTES**

- 90% OF TRANSACTIONS ARE “ROUTINE” AND CAN BE ACCURATELY REPORTED BY A STRONG “SYSTEM”
  - Internal controls
- The other 10% is where you will earn your pay and is what you read about in the papers.
  - That 10% Does, did and always will require applying JUDGMENT.
- Accounting is NOT the stereotypical ‘bean counter’.
  - You are choosing an interesting profession full of challenges.
GO TO THE BEACH!!

I remember EVERY good day of surf!